

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 NEA-11 ISO-00 SPC-03 SAM-01 AID-20

NSC-10 RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01

CEA-02 CIAE-00 COME-00 INR-10 LAB-06 NSAE-00 SIL-01

INT-08 FEA-02 FRB-02 SCI-06 IO-14 DRC-01 DODE-00

PA-04 USIA-15 PRS-01 AEC-11 /197 W

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R 311207Z JAN 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7564

INFO AMEMBASSY TEHRAN

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 01397

DEPARTMENT PASS TREASURY AND FRB

STATE ALSO FOR T/IEP

E.O. 11652:XGDS-1

TAGS: EFIN, ENRG, UK

SUBJECT: ENERGY: CHANCELLOR BARBER'S DISCUSSIONS WITH
SHAH OF IRAN IN ST. MORITZ

REF: LONDON 1319; STATE 19381

1. DEREK MITCHELL, SECOND PERMANENT SECRETARY, H. M.
TREASURY, WHO ACCOMPANIED CHANCELLOR BARBER DURING DIS-
CUSSIONS WITH THE SHAH OF IRAN IN ST. MORITZ ON JANUARY
25, GAVE TREASURY REPS FOLLOWING RUNDOWN. THE CHANCELLOR
AND THE SHAH HAD A TETE-A-TETE CONVERSATION FOR ABOUT 3/4
OF AN HOUR. THEY APPARENTLY GOT ON RELATIVELY WELL ON A
PERSONAL BASIS. DURING THIS AND OTHER DISCUSSIONS, CON-
VERSATION CENTERED ON IRANIAN INVESTMENT IN THE U.K.,
BOTH PORTFOLIO AND DIRECT. THE CHANCELLOR POINTED OUT
THE BENEFITS OF INVESTMENT THROUGH U.K. FINANCIAL INTER-
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MEDIARIES. THE IRANIANS WOULD PRESUMABLY LIKE TO INVEST

DIRECTLY IN CERTAIN U.K. COMPANIES. IN REPLY TO OUR QUESTION, MITCHELL SAID THEY MIGHT LIKE TO INVEST IN NORTH SEA ENERGY PROJECTS, BUT THE U.K. IS NOT SURE IT WOULD LIKE TO HAVE IRANIAN INVOLVEMENT. ANOTHER POSSIBILITY RAISED WAS SKILLED U.K. LABOR CURRENTLY UNEMPLOYED BEING HIRED UNDER CONTRACT TO WORK ON IRANIAN INDUSTRIAL DEVELOPMENT. MITCHELL SAID BASIC INITIATIVE FOR THE DISCUSSIONS WITH DTI HEAD WALKER AND THE CHANCELLOR CAME FROM IRANIANS AFTER TEAM OF IRANIANS VISITED LONDON IN DECEMBER.

2. IN REPLY TO QUESTION, MITCHELL SAID U.K. WAS NOT PLANNING TO ISSUE ANY PARTICULAR SPECIAL FORM OF DEBT INSTRUMENT TO INDUCE CAPITAL INFLOW FROM IRAN. THERE ALREADY EXIST ATTRACTIVE FORMS OF U.K. DEBT AVAILABLE TO LENDERS THROUGH THE MARKET. IN REPLY TO QUESTION WHETHER STERLING GUARANTEE ARRANGEMENTS MIGHT BE EXTENDED TO IRAN, TO COVER IRANIAN HOLDINGS OF STERLING, MITCHELL SAID THE U.K. DOES NOT WANT TO EXTEND SUCH AN OFFER; THIS RAISES STILL LARGER QUESTION OF WHAT TO DO WITH THE EXISTING STERLING GUARANTEE ARRANGEMENTS WHICH EXPIRE AT END OF MARCH. U.K. CONSIDERS IRAN IS MAKING A MAJOR PUSH FOR INDUSTRIAL DEVELOPMENT, IT WILL SPEND MUCH OF INCREASED INCOME IT RECEIVES FOR DEVELOPMENT, BUT THERE WILL STILL BE AVAILABLE AMPLE FUNDS FOR INVESTMENT OUTSIDE IRAN.

3. WE ASKED MITCHELL IF U.S. COULD ASSUME HE AND THE CHANCELLOR WENT ALONG WITH PETER WALKER TO MEET SHAH IN ORDER TO UPHOLD PRINCIPLES OF THE ROME C-20 COMMUNIQUE. MITCHELL GAVE A WIRY SMILE AND SAID "YES, THAT'S ABOUT IT." HE ADMITTED THERE IS UNEASE IN H. M. TREASURY AND ELSEWHERE IN U.K. GOVERNMENT ABOUT THE BILATERAL DEALS. HE HOPED U.S. MIGHT CONSIDER THE TYPE ARRANGEMENT CONCLUDED WITH IRAN THE BEST TYPE OF BILATERAL ARRANGEMENT. IT PROBABLY DOESN'T TAKE OIL AWAY FROM ANYONE ELSE. AT

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PRICE OF \$7.15 INSTEAD OF \$8.50 A BARREL, U.K. CAN'T BE ACCUSED OF PUSHING UP COSTS TO OTHERS. HE NOTED THAT AGREEMENT WITH IRAN WAS BASICALLY A ONE YEAR DEAL BUT SOME OIL DELIVERIES WOULD CONTINUE THROUGH EARLY 1975. IN THE ARRANGEMENT, WHICH MITCHELL CALLED "LOOSE BARTER" THE U.K. GOVERNMENT IS PURCHASING THE OIL; THE U.K. COMPANIES INVOLVED ARE ENTERING INTO SEPARATE CONTRACTS WITH THE GOVERNMENT OF IRAN.

4. MITCHELL SAID FROM A TREASURY POINT OF VIEW, HE IS A BIT NERVOUS THAT THE FINE PRINT HAS NOT BEEN AGREED UPON. U.K. FIRMS HAVE CONTRACTED TO SUPPLY 115 MILLION POUNDS OF GOODS AT TODAY'S PRICES. IF PRICES OF THESE GOODS ARE SUBSTANTIALLY HIGHER WHEN ACTUAL DELIVERIES ARE MADE AT END OF THE YEAR, WHO MAKES UP THE DIFFERENCE, AND HOW? PETER CAREY, AN OFFICIAL OF DEPARTMENT OF TRADE AND INDUSTRY, IS TO LEAVE FOR IRAN NEXT WEEK TO TRY AND IRON OUT THE DETAILS.

5. MITCHELL REPORTED THAT DURING DISCUSSIONS HE HAD WITH IRANIAN FINANCE MINISTER, THE LATTER WAS VERY ANNOYED
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WITH REPORTS HE HAD HEARD OF SECRETARY SHULTZ'S COMMENTS IN ROME ABOUT OIL PRICES BEING TOO HIGH. MITCHELL SAID HE REPLIED THAT THE IRANIANS AND OPEC COUNTRIES HAD TAKEN PROVOCATIVE ACTION; THEY SHOULDN'T BE SURPRISED IF THEIR ACTIONS EVOKE COUNTER REACTION.

6. MITCHELL QUERIED US ABOUT AGENDA FOR WASHINGTON ENERGY CONFERENCE. HE THOUGHT THAT TONY RAWLINSON WOULD REPRESENT THE U.K. TREASURY AT WASHINGTON ENERGY CONFERENCE. CURRENT POLITICAL AND ECONOMIC SITUATION IN U.K. IS SUCH THAT CHANCELLOR BARBER WILL PROBABLY NOT BE

ABLE TO ABSENT HIMSELF FROM THE COUNTRY, TAKING INTO
ACCOUNT THAT BOTH CARRINGTON AND DOUGLAS-HOME WILL BE IN
WASHINGTON. THIS MAY BE SUBJECT TO CHANGE IN LIGHT OF
INFORMATION IN STATE 19381 WHICH WE COMMUNICATED TO
MITCHELL.

7. PLEASE TREAT ABOVE COMMENTS ON ST. MORITZ DISCUSSIONS
AS NOFORN.

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